

Annual Budget Fiscal Year 2005-2006

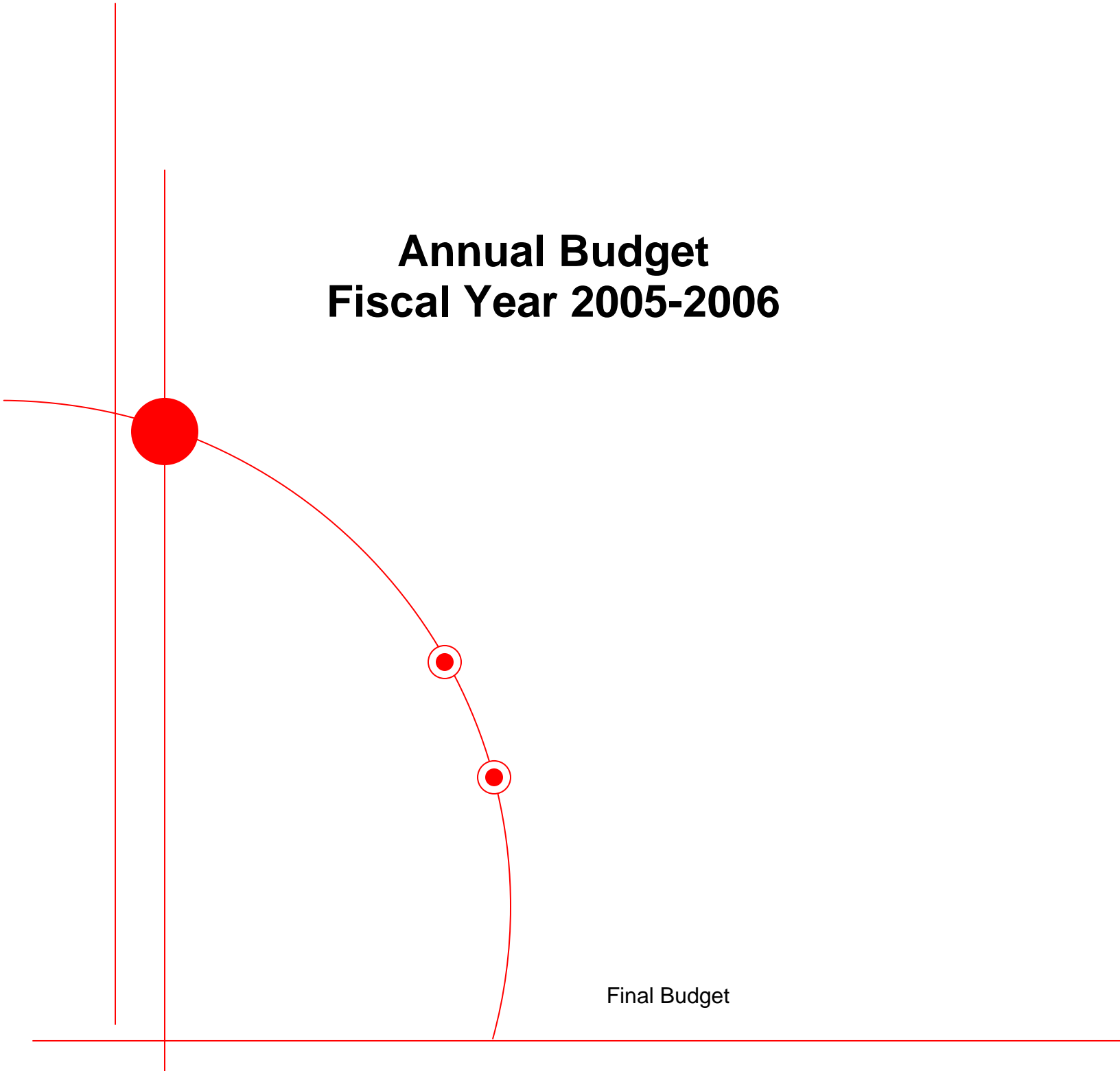
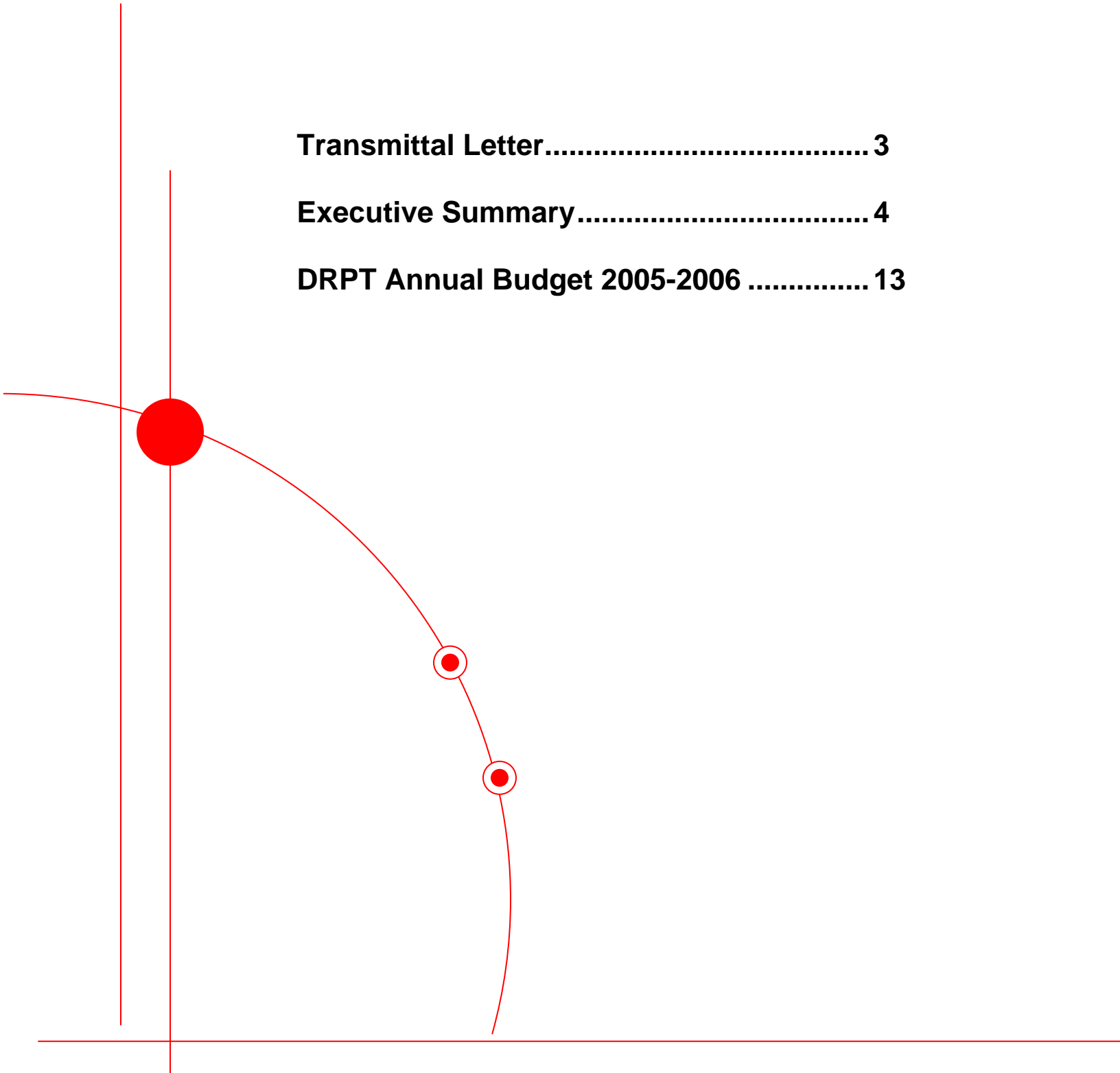


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June 10, 2005

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Dear Members of the Board:

This document contains the Department of Rail and Public Transportation's recommended fiscal year 2006 annual budget for your approval. The revenues and proposed expenditures of the fiscal year 2006 budget total \$432.8 million – a 74% increase over fiscal year 2005. The Commonwealth's investment of \$432.8 million supports an overall program of public transportation and rail of approximately \$1.1 billion.

The increase in estimated revenue of \$184.3 million is explained as follows: the 2005 Transportation Initiative appropriated \$35 million of transportation trust funds and \$40 million of general funds for transit capital; the Rail Enhancement fund was established with an initial annual revenue estimate of \$23.2 million; an increase in revenues for the Dulles Metrorail Extension project of \$32.8 million in Federal funds and \$24.1 million in excess Dulles Toll Road revenues; and increased Transportation Trust Fund revenue estimates accounted for \$18.7 million of the growth for fiscal year 2006.

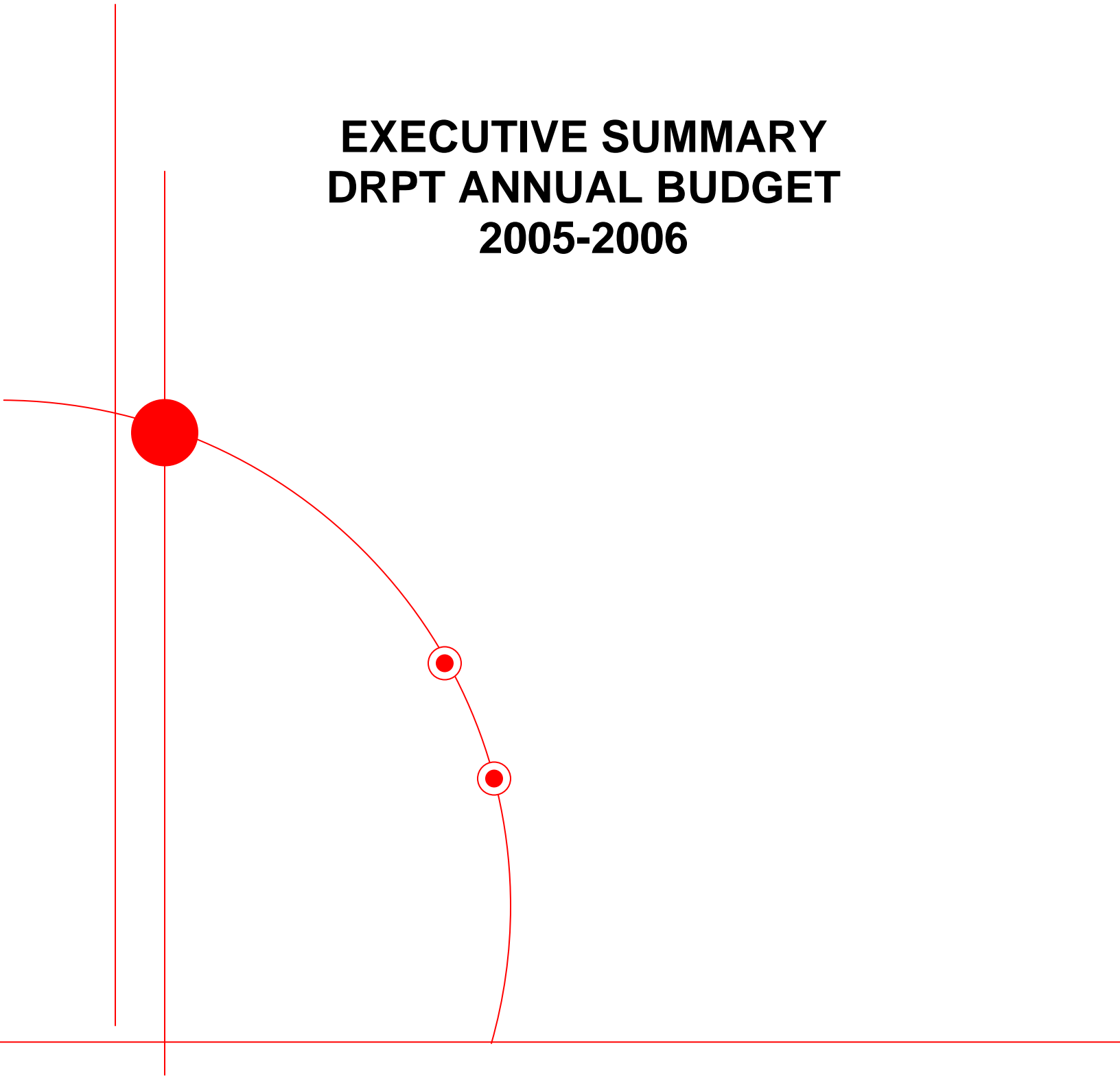
The current year expenditure plan is the largest in the agency's history. The recommended expenditure budget includes increases from the prior year that approximate the aforementioned increases in revenue. These expenditures will support engineering work on the Dulles Project, a new rail program and investments in public transportation and commuter assistance services. We are proud to report that our agency administrative budget represents only 1% of the proposed total budget.

We will be glad to answer any questions you may have concerning the budget.

Sincerely,

Karen J. Rae
Director

EXECUTIVE SUMMARY DRPT ANNUAL BUDGET 2005-2006

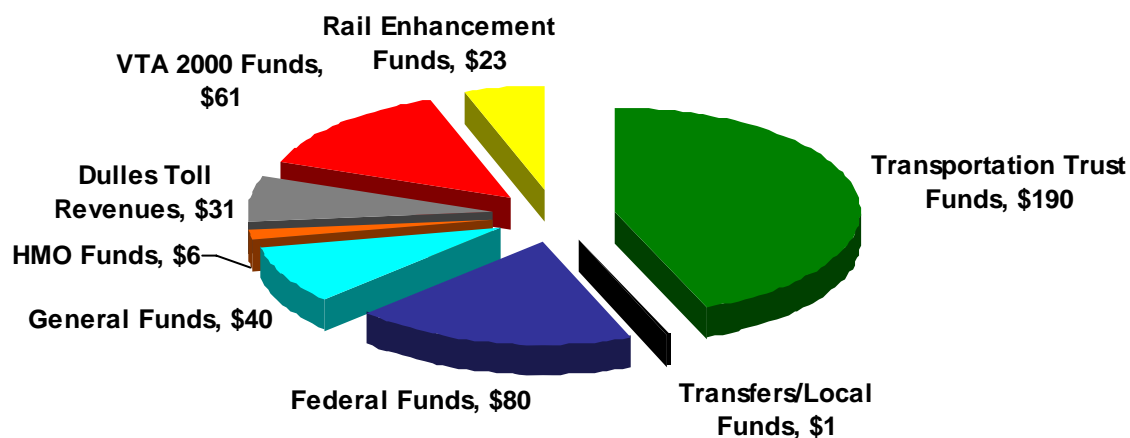


Summary of FY06 Budget for the Department of Rail and Public Transportation

In fiscal year 2006, the Department of Rail and Public Transportation will spend approximately \$432 million in public funds. These funds will come from eight different sources as shown in the chart below. The details for DRPT FY06 revenues can be found on page 14.

DRPT Estimated Revenues for FY 2006

(in millions)



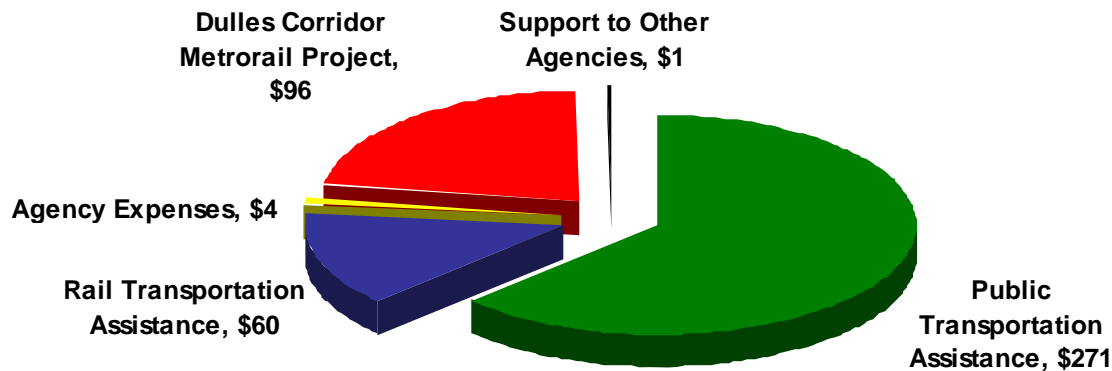
The FY06 budget for DRPT is about \$184 million greater than the FY05 budget. This increase is due largely to special state transportation funding initiatives proposed by the Governor and enacted by the 2005 Session of the Virginia General Assembly. The increases resulting from these initiatives are shown in the table below.

	FY06	FY05	Increase
Mass Transit Trust Fund (Increase resulting from Transportation Trust Fund enhancement)	\$134.3M	\$115.5M	\$18.7M
Mass Transit Capital Fund	\$75.0M	\$0	\$75.0M
Rail Enhancement Fund	\$23.2M	\$0	\$23.2M

The FY06 budget also provides for a significant increase in spending (\$51M) on the Dulles Corridor Metrorail project as the preliminary engineering is completed and the project moves towards final design and construction. The increased spending for the Dulles project will be supported by Dulles Toll Road revenues and federal funds.

The FY06 DRPT Budget will be expended in five broad areas that include the Dulles Corridor Metrorail Project, public transportation assistance, rail transportation projects, financial support to other agencies, and the DRPT agency operating expenses which represent only about 1% of the total.

DRPT Budgeted Expenditures for FY 2006 (in millions)



A further detailed breakdown of these expenses and how they compared to FY05 levels is found on page 15.

Public Transportation Assistance Highlights for FY06

The \$271M in Public Transportation Assistance for FY06 will include approximately \$35M in federal funds, \$75M in Mass Transit Capital Funds, \$18M in Transportation Trust Funds allocated to public transportation programs, \$9M in VTA 2000 funds, \$1M in HMO funds, and \$134M in Mass Transit Trust Funds.

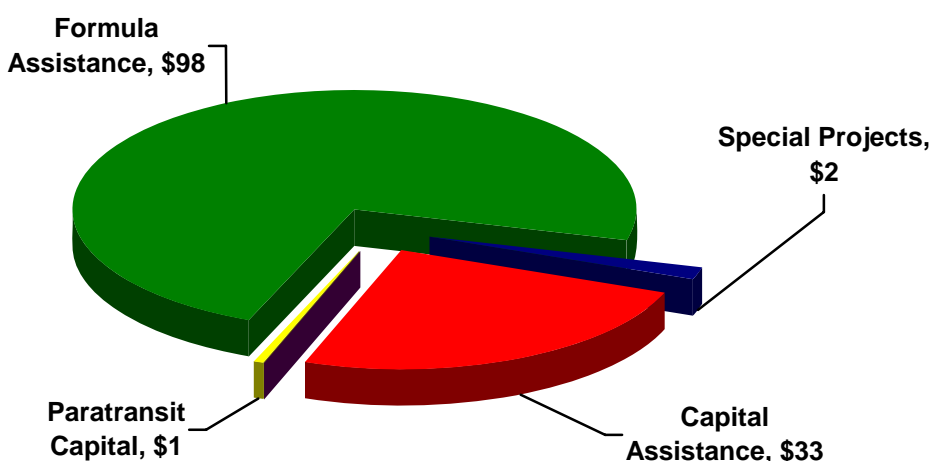
The Mass Transit Capital Fund provides a **one year appropriation** to support select projects at an 80% share. The projects include:

- \$40M for WMATA Metrorail Cars
- \$20M for VRE Rail Cars
- \$10M for Virginia Beach Bus Rapid Transit Project
- \$5M for statewide bus purchase

As noted on the previous page, the FY06 allocation of Mass Transit Trust Funds provides an increase of \$18.7 million from FY05. This allocation is made up of 14.7% of the 1986 Special Session Revenue (Transportation Trust Fund) and is adjusted by estimates of interest that will be earned; carry over from the previous fiscal year; and indirect charges.

The annual allocation of these funds is distributed in accordance with Appropriations Act language and the provisions of the Section of Virginia Code that establishes the Mass Transit Trust Fund (§58.1-638.A.4). The distribution is as follows: \$800,000 is taken off of the top for paratransit capital projects; then 73.5% is allocated as state operating assistance grants (called formula assistance grants); 25% is awarded as capital assistance grants; and the balance of 1.5% is awarded as special projects grants. The FY06 allocation of Mass Transit Trust Funds is depicted in the following chart.

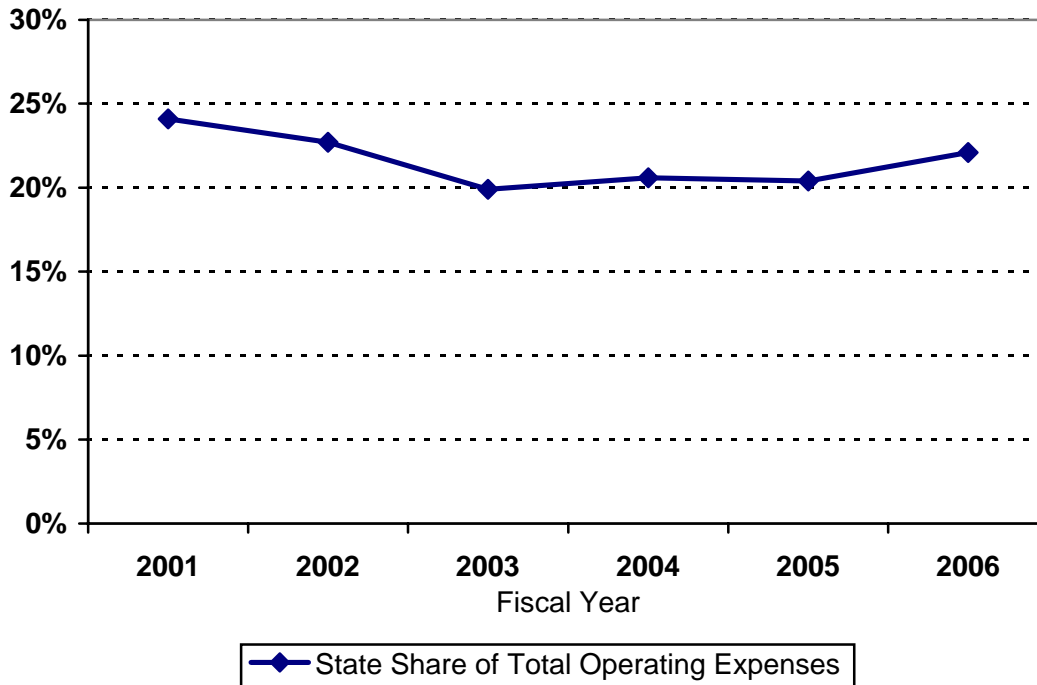
FY06 Mass Transit Trust Fund (in millions)



State formula assistance grants are awarded on the basis of the total annual amount of state funds available expressed as a percent of the total annual amount of transit operating expenses. Transit operating expenses across the state totaled \$444M for the last completed fiscal year (FY04). The amount of formula assistance available for FY06 represents 22% of that total (\$444/\$98). Therefore in FY06 each transit system will receive state aid in the amount of 22% of their FY04 total operating expenses.

The state share of total operating expenses fluctuates from year to year but has remained in the range of 20% to 24% in the last five years as shown in a table on the following page. Most transit systems received increases in their formula assistance grants for FY06. However, it should be noted that the FY07 revenue forecast for Mass Transit Trust Funds is actually lower than the FY06 estimate. That indicates the formula assistance grants for FY07 will be lower than those enjoyed this year.

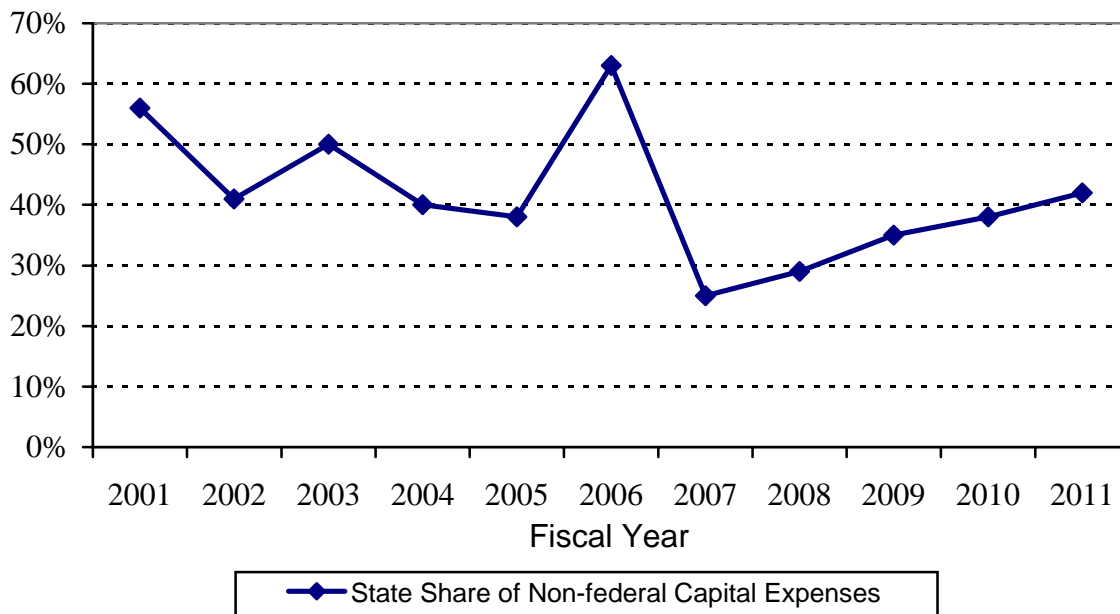
State Formula Assistance



State capital assistance grants are awarded to all projects deemed to be eligible, reasonable and appropriate at a uniform annual level of state participation. This level of participation or “state share” of capital project expenses is calculated by dividing the amount of state funds available for capital projects each year by the amount needed to support the non-federal share of all transit capital projects for the year. In FY06 the state share of capital expenses is 63%. The maximum allowable state share of capital expenses is 95% but there have not been sufficient funds to support transit capital projects at this level since the Mass Transit Trust Fund was created in 1986. The FY06 state share of 63% is the highest that has been provided in the past ten years.

Unfortunately, once the one-time surge in funding enjoyed in FY06 is gone, the state share is expected to drop precipitously in FY07 to a low of 25%. The state share of non-federal capital expenses for the last five years and for the next six years is shown in the graph on the following page.

State Capital Assistance



In FY06, \$33.4M will be available to support public transportation capital projects across the Commonwealth from the Mass Transit Trust Fund. In FY06 only, there are additional funds provided under the Mass Transit Capital Fund in the amount of \$75M. The projects that will be supported by these funds and additional federal funds available to DRPT are summarized in the table below.

Public Transportation Capital Projects for FY06

	Replacement Transit Vehicles	Expansion Transit Vehicles	Paratransit E&H Vehicles	Service Support Vehicles	Transit Facility Construction or Renovation	Transit Facility Planning or Design
Bristol District	18	1	2	0	0	1
Culpeper District	11	0	3	0	2	0
Fredericksburg District	10	4	4	0	1	0
Hampton Roads District	8	6	9	4	5	1
Lynchburg District	9	2	7	0	1	0
Northern Virginia District	41	27	5	2	11	0
Richmond District	0	0	15	0	4	0
Salem District	26	3	6	3	2	1
Staunton District	15	9	15	0	1	1
Statewide Totals	138	52	66	9	27	4

The Special Projects grants will receive an allocation of \$2M in FY06. These funds are used to award discretionary grants for public transportation demonstration projects, technical assistance projects, public transportation internships and transportation demand management (TDM) projects. In addition to these funds, \$3.0M is appropriated for FY06 to support TDM projects in a program called the Transportation Efficiency Improvement Fund (TEIF) program. The TEIF program also is a discretionary grant program that provides state funds to support 80% of the costs of TDM programs and special projects that are designed to reduce single occupant vehicle travel. These funds are used together with Special Projects funds to support vanpooling, ridesharing, marketing and promotional efforts across the Commonwealth that are designed to encourage travel in shared ride modes.

The distribution across the state of TEIF and Special Projects grants for FY06 is shown in the table below.

Transportation Demand Management and Special Projects for FY06

	Transportation Demand Management Agencies	Special TDM Projects	Demonstration Projects	Technical Assistance Projects	Public Transportation Internships	Total
Bristol District	0	0	0	0	2	2
Culpeper District	2	2	2	1	1	8
Fredericksburg District	3	0	1	1	0	5
Hampton Roads District	0	0	2	0	2	4
Lynchburg District	0	0	0	0	0	0
Northern Virginia District	5	2	4	2	4	17
Richmond District	1	1	4	0	1	7
Salem District	1	0	2	1	2	6
Staunton District	1	0	1	0	0	2
Statewide Totals	13	5	16	5	12	51

Additional detailed information on formula assistance, capital assistance, special projects, and TEIF grants for FY06 is found in the Commonwealth Transportation Board FY06 Six-Year Improvement Program.

Dulles Corridor Metrorail Project Highlights for FY06

The FY06 budget for the Dulles Corridor Metrorail Project includes projected expenses totaling approximately \$96M. The budget will support the activities below.

	FY 06 (1,000's)
Phase 1 - PE, Development & Design	
Federal	\$44,750
State VTA 2000 Funds	\$2,630
Dulles Toll Revenues	\$24,816
<hr/>	
Phase 2 - PE & Development	
State VTA 2000 Funds	\$16,959
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Dulles Express Bus Service	
Dulles Toll Revenues	\$6,645
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Total	\$95,800

The total budget for the Dulles project appears in the Six Year Program along with the funding sources for the major tasks. Past, current and future allocations are shown for each major task and a more complete picture of the funding for the project is provided. It should be noted that the FY06 allocations for the Dulles project that appear in the Six Year Program differ from the estimated FY06 expenditures shown above. The Six Year Program shows an allocation of federal funds of \$25M while the Agency Budget indicates that federal funds totaling \$44.8M will be spent. The actual expenditures will draw from federal funds allocated in previous years. The Six Year Program also shows an allocation of \$145M in Bonds. These funds will not be spent until subsequent years and therefore are not in the Agency Budget.

Rail Transportation Assistance Highlights for FY06

The FY06 Budget includes about \$60M in rail transportation assistance. This includes \$800K in funds for Operation Lifesaver and Rail Continuance projects, \$33M in VTA 2000 funds for High Speed Rail Projects, \$3M in Rail Preservation Funds and \$23M in Rail Enhancement Funds.

The Rail Enhancement Fund is a new program created to support the acquisition, improvement or expansion of equipment, rolling stock, railways, rights of way and other capital projects for rail freight and/or rail passenger purposes.

The legislation that created the Rail Enhancement Fund also created a Virginia Rail Advisory Board (RAB). The RAB, created by statute, consists of nine members appointed by the Governor. It is charged with identifying, developing and advocating projects and policies for rail freight and rail passenger transportation in the Commonwealth. The Rail Advisory Board makes recommendations through the

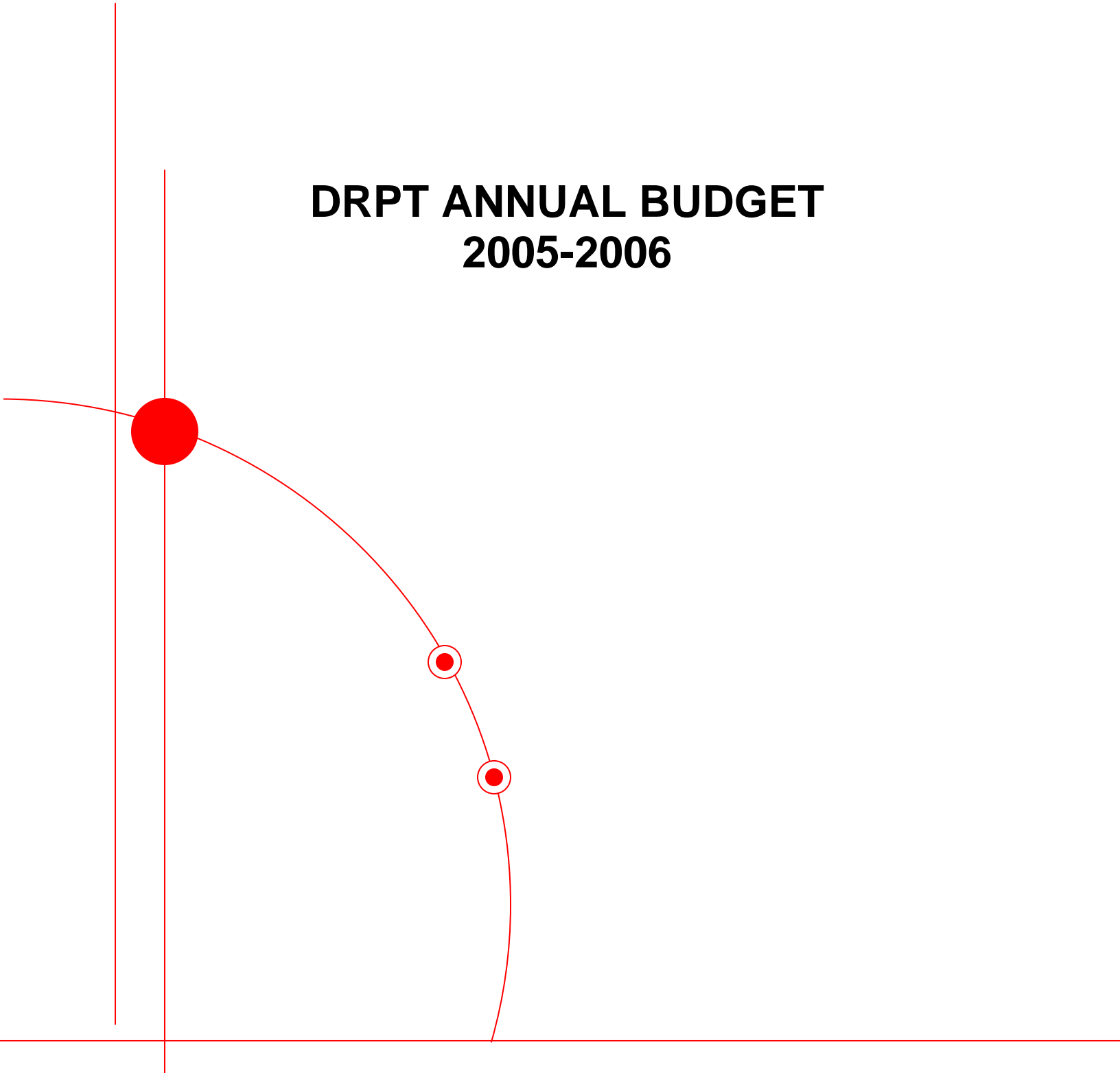
Director of DRPT to the Commonwealth Transportation Board regarding all proposed allocations from the Rail Enhancement Fund.

Nine projects to support Virginia's shortline railroads are proposed for FY06 under the State Rail Preservation Program and are listed in the table below. These shortline operations carry about 226,000 railcars per year, which equates to 902,000 trucks off the road per year. Shortline railroads not receiving grants for FY2006 in this proposed program include the Eastern Shore Railroad and the North Carolina – Virginia Railroad.

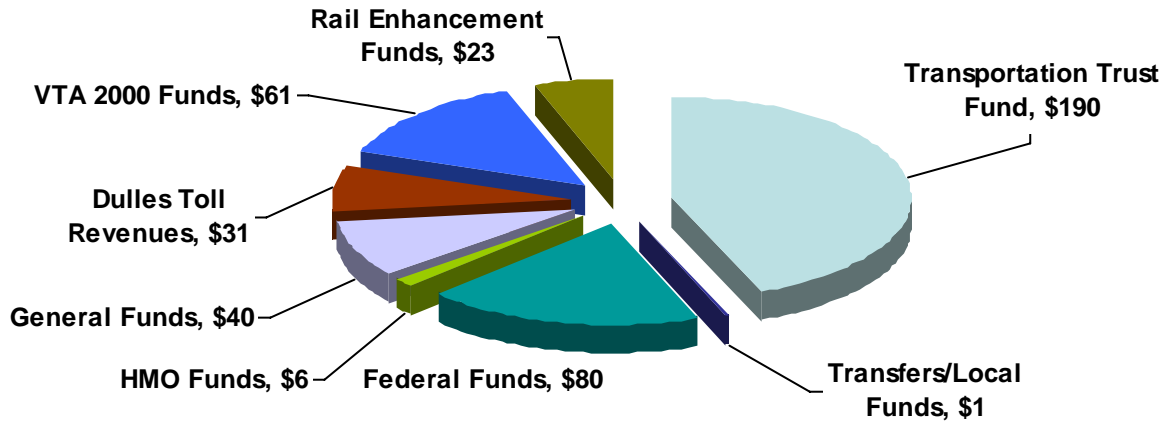
State Rail Preservation Program Projects for FY06

Shortline Railroad Company	New Construction	Rail Rehabilitation	Rail Upgrade	Tie Replacement	Bridge Rehabilitation
Buckingham Branch – Dillwyn Branch			\$383,121		
Buckingham Branch – Richmond - Alleghany				\$638,536	
Chesapeake and Albemarle Railroad					\$75,541
Commonwealth Railway, Inc.				\$267,435	
Deepwater Terminal Railroad	\$391,657				
Norfolk Portsmouth Belt Line Railroad				\$630,000	
Shenandoah Valley Railroad				\$100,000	
Virginia Southern Railroad		\$258,296			
Winchester and Western Railroad				\$255,414	

DRPT ANNUAL BUDGET 2005-2006

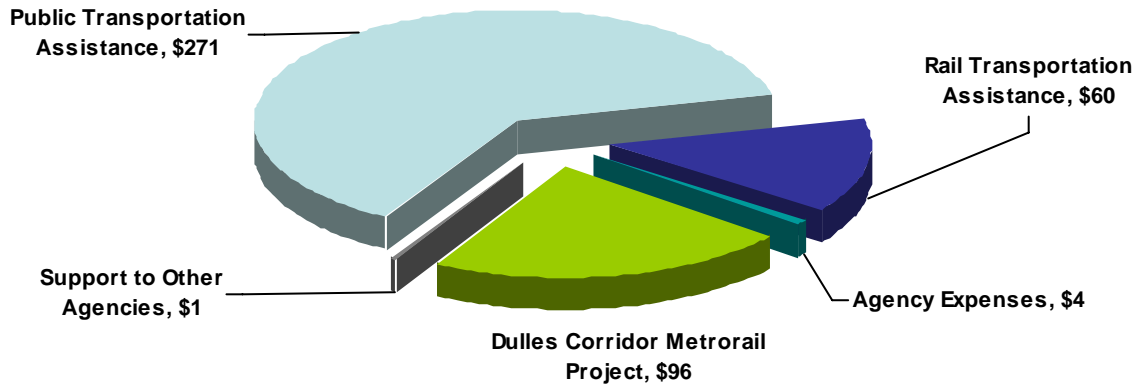


DRPT
Estimated Revenues for FY 2006
(in millions)



	Estimated FY 2006	Adopted FY 2005	Increase / (Decrease)	Percentage Change
HIGHWAY MAINTENANCE AND OPERATING FUND [Notes 7, 8]	\$ 5.6	\$ 5.4	\$ 0.2	3.7%
TRANSPORTATION TRUST FUND				
1986 Special Session Revenue (14.7%)	132.9	114.2	18.7	16.4%
Interest Revenue	1.5	1.5	-	0.0%
Unobligated Balance	-	0.8	(0.8)	-100.0%
Transportation Efficiency Improvement Program (TEIF)	3.0	3.0	-	0.0%
Rail Preservation Program	3.0	3.0	-	0.0%
Mass Transit Capital [Note 2]	35.0	-	35.0	100.0%
Rail Enhancement [Note 6]	23.2	-	23.2	100.0%
Special Programs - VDOT Transfers [Notes 1, 3, 4]	11.7	0.8	10.9	1362.5%
State Match - CMAQ / RSTP	2.8	3.9	(1.1)	-28.2%
Total	213.1	127.2	85.9	67.5%
GENERAL FUND - Mass Transit Capital [Note 2]	40.0	-	40.0	100.0%
FEDERAL REVENUE				
6% Surface Transportation Program	14.6	9.6	5.0	52.1%
10% Minimum Guarantee	8.4	8.3	0.1	1.2%
Congestion Mitigation and Air Quality (CMAQ)	1.3	-	1.3	100.0%
Federal Transit Administration [Note 5]	55.3	24.4	30.9	126.6%
Federal Rail Administration	0.7	0.7	-	0.0%
Total [Note 9]	80.3	43.0	37.3	86.7%
LOCAL REVENUES	0.6	0.6	-	0.0%
TRANSFERS FROM OTHER AGENCIES				
DMV Transfers	0.1	0.1	-	0.0%
VDOT - Dulles Toll Road Transfers [Note 5]	31.5	7.4	24.1	325.7%
VDOT - VTA 2000 Transfers	61.2	64.8	(3.6)	-5.6%
Total	92.8	72.3	20.5	28.4%
TOTAL ESTIMATED REVENUE [Note 9]	\$ 432.4	\$ 248.5	\$ 183.9	74.0%

DRPT
Budgeted Expenditures for FY 2006
(in millions)



	Recommended FY 2006	Adopted FY 2005 Budget	Increase / (Decrease)	Percentage Change
Public Transportation				
Operating Assistance [Note 1]	\$ 109.1	\$ 92.0	\$ 17.1	18.6%
Capital Assistance [Note 2]	146.5	63.1	83.4	132.2%
Special Programs [Note 3]	5.7	3.3	2.4	72.7%
TDM Programs [Note 4]	10.0	5.5	4.5	81.8%
Total	271.3	163.9	107.4	65.5%
Dulles Metrorail Extension				
Phase 1	72.2	27.5	44.7	162.5%
Phase 2	17.0	10.9	6.1	56.0%
Express Bus Service	6.6	6.6	-	0.0%
Total [Note 5]	95.8	45.0	50.8	112.9%
Passenger and Freight Rail				
Preservation Programs	3.0	3.0	-	0.0%
Enhancement Programs [Note 6]	23.2	-	23.2	100.0%
HSR Capital Programs	32.7	30.4	2.3	7.6%
Other	0.8	0.8	-	0.0%
Total	59.7	34.2	25.5	74.6%
Agency Operating Budget [Note 7]	4.4	4.2	0.2	4.8%
Support to Other Agencies [Note 8]	1.2	1.2	-	0.0%
Agency Total [Note 9]	\$ 432.4	\$ 248.5	\$ 183.9	74.0%

DRPT
Footnotes to the FY 2006
Annual Budget

- (1) The Operating Assistance expenditure item consists of Mass Transit Trust Fund (MTTF) formula allocations of \$98.1 million, \$7.1 million in federal assistance through the Federal Transit Administration (FTA), and \$3.9 million in projects previously allocated in VDOT's Six Year Plan such as the Governor's Congestion Relief Projects, Richmond Highway bus service, and Springfield interchange express bus service. The increase in this activity's budget over FY 2005 relates to the increased Transportation Trust Fund revenues and the inclusion of previously allocated projects administered by DRPT that will be expended in FY 2006.
- (2) In FY 2006 Public Transportation Capital Assistance increased by \$83.4 million due primarily to the Mass Transit Capital fund authorized by Chapter 951, 2005 Virginia Acts of Assembly in the amount of \$75.0 million. The remaining activities budgeted in this line are \$800,000 for state paratransit, \$33.4 million of MTTF allocation, \$9.0 million of VTA 2000 funds for WMATA, \$25.0 million of federal allocations, and \$3.3 million in state and local matching funds.
- (3) Public Transportation Special programs includes the 1.5% MTTF allocation for FY 2006 of \$2.0 million, \$2.1 million in Planning funds previously allocated in FY 2005, and FTA Section 5303 funds (\$1.4 million) and the related state match (\$191,400).
- (4) Transportation Demand Management programs includes the Transportation Efficiency Improvement Fund of \$3.0 million from the Transportation Trust Fund, \$5.7 million in projects administered by DRPT with funding allocated through VDOT's Six Year Plan (Innovative Progress – Telework, Ridefinders, TRAFFIX), and \$1.3 million in federal CMAQ funds that DRPT administers.
- (5) For FY 2006, projected expenditures for the Dulles Corridor Metrorail project are \$50.8 million or 112.9% greater than for FY 2005. This increase was expected as preliminary engineering for both Phase 1 and Phase 2 of the project are scheduled for completion. The source of funding for the increase is \$32.7 million of increased utilization of available federal funding and \$24.1 million in additional Dulles Toll Road revenues. In May of 2005, the toll charges on the Dulles Toll Road were increased to provide funding for the Dulles Corridor Metrorail project. One-hundred percent (100%) of the revenues attributable to the May 2005 toll increase are dedicated to the Dulles project. The project will continue to receive 85% of the excess Dulles Toll revenues based on the toll rates that existed prior to the May of 2005 increase.
- (6) The 2005 General Assembly passed legislation (Code of Va. Section 33.1-221.1:1.1) to establish the Rail Enhancement fund. The Fund was created to support the acquisition, improvement or expansion of equipment, rolling stock, railways, rights of way and other capital projects for rail freight and/or rail passenger purposes. The source of funding for the Rail Enhancement fund is the state portion of vehicle rental taxes collected in the Transportation Trust Fund, estimated at \$23.2 million for FY 2006.

DRPT Footnotes to the FY 2006 Annual Budget (Continued)

- (7)** The agency operating budget is funded by Highway Maintenance and Operating (HMO) funds. The increase of 4.8% is attributable to increased payroll (3% raise plus \$50 per year added to base) and fringe benefit (healthcare) costs. DRPT's operating budget represents only 1% of the FY 2006 budget.
- (8)** Support to Other Agencies is funded primarily through HMO funds and consists of the following: transfers to the General Fund (\$589,247) of the Commonwealth mandated by Chapter 951, 2005 Va. Acts of Assembly; indirect costs (\$432,460) for central service agency activities; and Virginia's annual payment (\$224,846) to the Washington Metropolitan Area Transit Commission (WMATC).
- (9)** Certain reclassifications were made to the FY 2005 budget so that it would provide comparative data to the FY 2006 classifications. Most notably, the Dulles Corridor Metrorail project was separately identified. Additionally, \$17.8 million of federal regional STP funds were removed from the FY 2005 budget because DRPT does not have the ability to exercise financial control over these resources. The regional MPO's allocate these funds to the various systems and modes.